

Stock Idea

Sector: Building Materials

February 03, 2021

Greenlam Industries Limited



A perfect fit

Sharekhan

by BNP PARIBAS



Powered by Sharekhan's 3R Research Philosophy



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

Reco/View

Reco:	Buy
CMP:	Rs. 842
Price Target:	Rs. 1,100

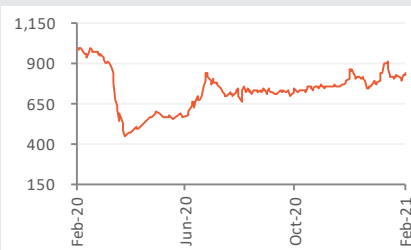
Company details

Market cap:	Rs. 2,032 cr
52-week high/low:	Rs. 1,010/450
NSE volume: (No of shares)	0.1 lakh
BSE code:	538979
NSE code:	GREENLAM
Free float: (No of shares)	1.1 cr

Shareholding (%)

Promoters	54.9
FII	0.8
DII	17.3
Others	27.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.5	12.4	27.3	-15.0
Relative to Sensex	3.1	-11.3	-7.5	-39.9

Sharekhan Research, Bloomberg

Summary

- We initiate coverage on Greenlam Industries Limited (GRLM) with a Buy rating and price target of Rs. 1100.
- Greenlam is expected to ride on a strong growth trajectory led by its leadership positioning, strong domestic growth outlook and rising export opportunities.
- Brownfield capacity expansions would be next leg of growth. Despite capex, balance sheet and return ratios would improve further.
- Structural growth drivers such as rising incomes, urbanisation, real estate construction, Atmanirbhar Bharat, etc. would provide long-term sustainable growth trajectory.

Greenlam Industries Limited (GRLM) is among the top-ranking companies in the Rs. 5,700-crore laminates industry with a market share of ~20%. It has emerged as the largest laminate manufacturer in Asia and the third-largest in the world. GRLM is expected to ride on a strong growth wave for the wooden furniture industry which is expected to clock a 12% CAGR over 2020-2023. Key growth drivers for the industry are rising incomes, urbanisation, real estate development, government schemes such as Housing for All, etc. Further, we expect GRLM to grow at a faster pace benefiting with market share gains from unorganised players (who hold a ~64% volume market share) leveraging its strong distribution network (14,000+ distributors, dealers & retailers). The government's focus on making India an export hub provides strong overseas growth opportunities for Greenlam (43% export revenues share rising by 15.5%/12.4% y-o-y in FY2019/FY2020). GRLM through its subsidiary, Greenlam South Limited (GSL) is undertaking 1.5mn sheet brownfield capacity expansion in Andhra Pradesh at a capex of Rs. 175 crore which is expected to be commissioned by Q4FY2023. The said expansion would provide the next leg of growth. Despite the expansion, GRLM's net debt to equity ratio is slated to reduce (from 0.5x in FY2020 to 0.2x in FY2023) while RoCE would improve (from 10.3% in FY2020 to 15.5% in FY2023). The company is currently valued at a P/E of 19.1x/15.3x its FY2022E/FY2023E earnings which, we believe is attractive considering 40% net earnings CAGR over FY2021E-FY2023E. Hence, we initiate coverage on the stock with a price target of Rs. 1100 (valued at 20x FY2023E earnings).

Structural growth story unwinding for wood panel industry: The Indian furniture market is estimated at \$20 billion, accounting for less than 5% of the \$510 billion global furniture market. The Indian furniture market is slated to grow at 12% CAGR over 2020-2023, the organised market is expected to grow at a faster pace of a 26% CAGR. India's laminate market estimated at Rs. 5,700 crore (~74% domestic share, ~64% unorganised share) is also expected to grow at a brisk pace. Key structural growth drivers are rising population, higher per capita and disposable incomes, urbanisation, real estate construction, etc. Greenlam, being a dominant player in the industry is expected to grow at higher than industry growth owing to high share of unorganised segment in the industry and rising export opportunities.

Our Call

Valuation – Initiate with Buy assigning a Price Target of Rs. 1100: Greenlam, with its dominant industry position, strong domestic growth outlook and rising export opportunities is slated to see revenues/EBITDA/net profit clock a CAGR of 17.8%/25.0%/40.1% over FY2021E-FY2023E. Further, its ongoing capacity expansion plan would provide the next leg of growth. Strong operating cash flow generation (Rs. 350 crores+ over FY2021E-FY2023E) would help de-leverage the balance sheet (net debt/equity is to reduce from 0.5x in FY2020 to 0.2x in FY2023) while RoCE to improve (from 10.3% in FY2020 to 15.5% in FY2023). The company is currently valued at a P/E of 19.1x/15.3x its FY2022E/FY2023E earnings, which we believe is attractive considering 40% net earnings CAGR over FY2021E-FY2023E. Hence, we initiate coverage on the stock with a price target of Rs. 1100 (valued at 20x FY2023E earnings).

Key risk

Weak macroeconomic environment leading to lull in industry growth trend.

Valuation (Consolidated)

Particulars	Rs cr				
	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,280.7	1,320.6	1,127.8	1,384.9	1,566.2
OPM (%)	12.4	13.5	14.3	15.6	16.1
Adjusted PAT	77.1	86.7	67.8	106.6	133.2
% Y-o-Y growth	19.3	12.4	(21.7)	57.1	25.0
Adjusted EPS (Rs.)	31.9	35.9	28.1	44.2	55.2
P/E (x)	26.4	23.4	30.0	19.1	15.3
P/B (x)	4.6	4.0	3.6	3.1	2.6
EV/EBIDTA (x)	14.5	12.9	14.2	10.6	9.1
RoNW (%)	19.7	18.7	12.8	17.7	18.8
RoCE (%)	13.7	13.8	10.3	14.2	15.5

Source: Company; Sharekhan estimates

Executive Summary

3R Research Positioning Summary

- **Right Sector:**
Structural growth drivers, high unorganised share along with government's focus on Make in India to drive growth.
- **Right Quality:**
GRLM earnings has grown at a brisk pace in tandem with de-leveraging, capacity expansion and maintaining healthy return ratios.
- **Right Valuation:**
Strong earnings growth profile provides comfort on current valuation.

Valuation and return potential

- ◆ **Price Target:** We assign 20x P/E on FY2023E earnings owing to strong 40.1% CAGR in net earnings over FY2021E-FY2023E.
- ◆ **Reasonable valuation:** Company's history of high growth improving balance sheet strength while maintaining healthy return ratios.

Catalysts

Long-term triggers

- ◆ The Indian Furniture market is expected to grow at a 12% CAGR over 2020-23, organised market is expected to grow at a faster 26% CAGR.
- ◆ India's focus on domestic manufacturing and making it an export hub.

Medium Term Triggers

- ◆ Market share gains in the post COVID-era from un-organised sector.
- ◆ Increasing exports led by anti-China sentiments.

Key Risks: Weak macros, lower industry growth, increase in input costs, rise in competition.

Earnings and Balance sheet highlights

- ◆ **Strong earnings:** Net earnings grew at a 51.6% CAGR over FY2016-FY2020.
- ◆ **Cash-flow generation:** Average OCF generation of Rs. 92 crore per annum over FY2016-FY2020.
- ◆ **Healthy balance sheet:** Net debt-to-equity ratio reduced from 1.5x in FY2016 to 0.5x in FY2020;
- ◆ **Best working capital cycle:** One of the lowest working capital cycles in the industry.

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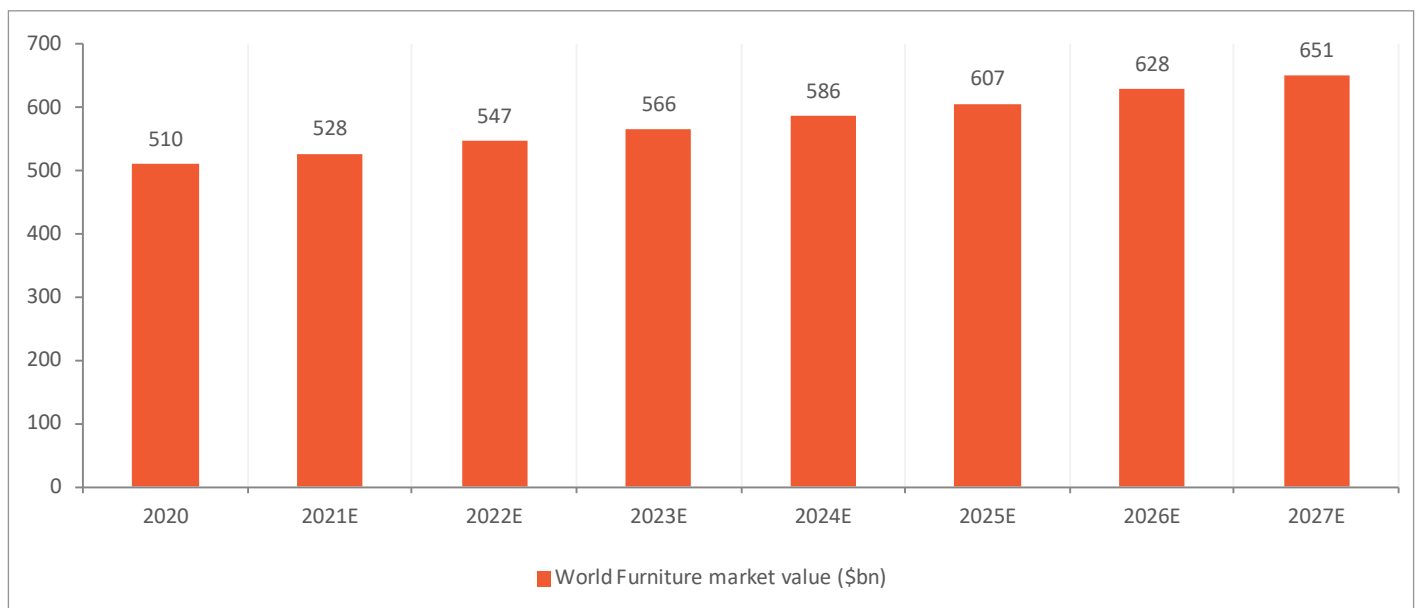
Why we like space – Furniture industry to be driven by both domestic structural triggers and government’s impetus on AtmaNirbhar Bharat

Indian organised furniture market set to clock a 26% CAGR over 2020-2023. India’s organized laminate market players having a lion’s share have multiple domestic and structural growth drivers to grow over the next 5-7 years

Global furniture market to grow at 3.5% CAGR over 2020-2027

The global furniture market was estimated to be worth \$509.8 billion in 2020 and is forecast to reach ~\$650.7 billion by 2027. After an early analysis of business implications for the pandemic and its induced economic crisis, growth in the wood segment is re-adjusted to a revised 4% CAGR for the next 7-year period. This segment currently accounts for a 37.9% share of the global furniture market. The US accounts for over 27% of global market size in 2020. China, the world’s second largest economy, is forecast to reach an estimated market size of \$136.2 billion in 2027 trailing a CAGR of 6.4% through 2027. Among the other noteworthy geographic markets are Japan and Canada, each forecast to clock a CAGR of 1% and 2.7%, respectively, over 2020-2027. Within Europe, Germany is forecast to grow at a ~1.8% CAGR while Rest of European market will reach \$136.2 billion by 2027.

Global furniture market value trend

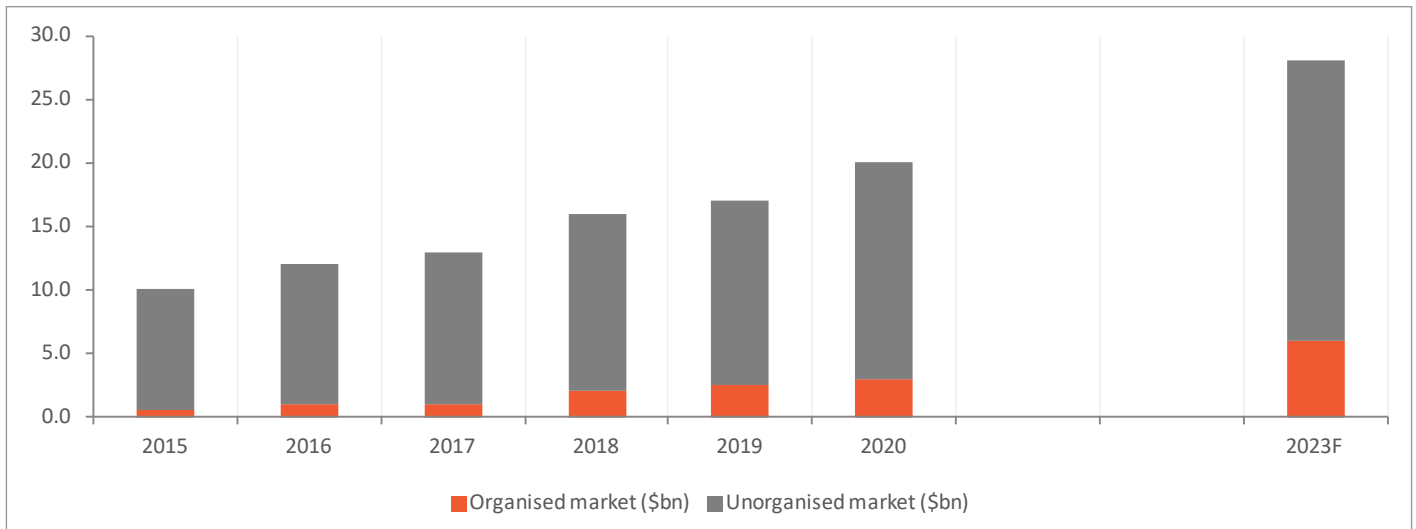


Source: Industry, Sharekhan Research

India organised furniture market to clock a 26% CAGR over 2020 to 2023

The Indian furniture market clocked a 14.9% CAGR over 2015-2020 to ~\$20 billion, which forms just 3.9% of the global furniture market. In the Indian market, the size of organised segment is minuscule at \$3 billion, growing at a 43.1% CAGR over 2015-2020 on a low base. The unorganized furniture market has grown at a 12.3% CAGR over 2015-2020. Going ahead, organised furniture market is estimated to record a 26% CAGR over 2020-2023 to \$6 billion, while the unorganized furniture market is estimated to grow at 9% CAGR to \$22 billion.

India's furniture Organised/Un-organised market trend



Source: Industry, Sharekhan Research

India: Net exporter of furniture

The global furniture export market is worth \$246 billion and five countries account for over 50% of the export market. China is at number one with exports of \$ 75 billion, followed by Germany and Poland at second and third position with exports of \$19 billion and 17 billion, respectively. India's exports were pegged at just \$1.8 billion during 2019, when India also turned net exporter of furniture.

India's furniture export/import trend



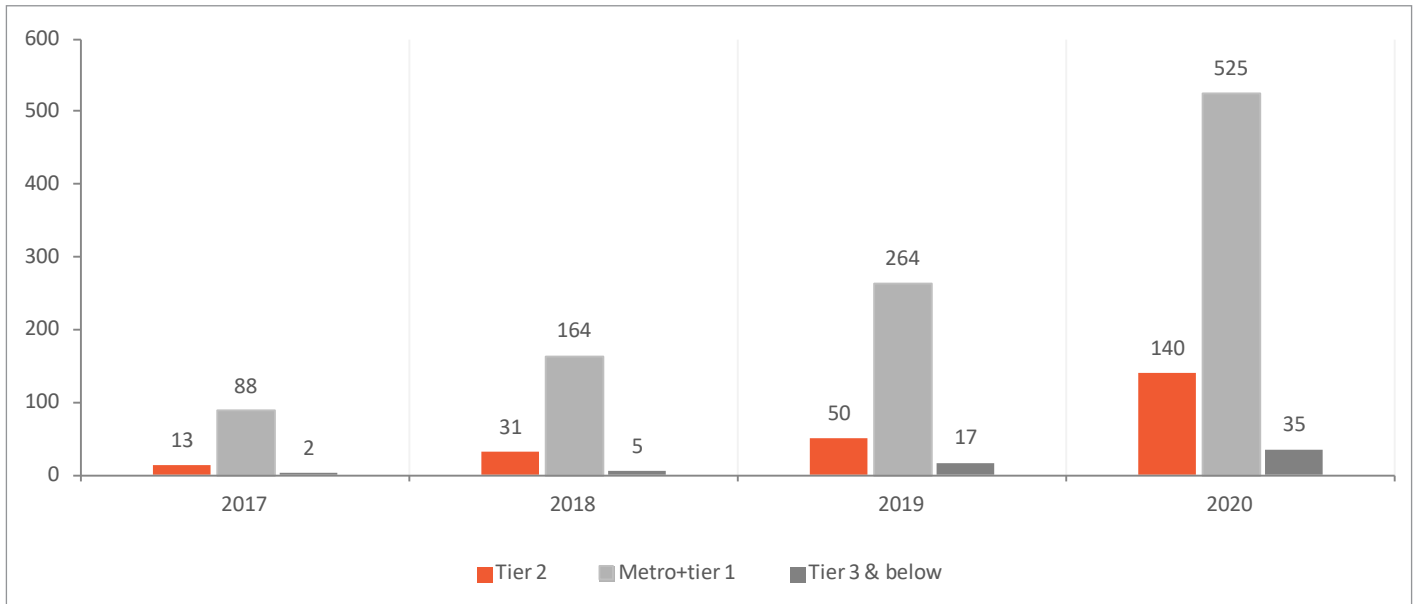
Source: Industry, Sharekhan Research

Rise in E-retail for Furniture

One of the major disruptions witnessed during the COVID-19 led lockdowns was the sudden rise in e-Commerce. While there has been a rise in need for modular, multi-functional and customised furniture for home-offices and home-schooling, the lockdown saw a shift, with consumers preferring to purchase online rather than from the traditional stores, thereby changing the face of Furniture retail. Also, these changes are not restricted only to the urban market but are also seen in smaller towns and tier-II cities, as most urban professionals are migrating

away from cities to work from their hometowns, due to remote working options. The share of online furniture sales has increased its share owing to the concept of experience stores and availability of different models at affordable prices with good quality. In fact, the online furniture market has been growing at a CAGR of ~80-85%, dominated by Metro & Tier 1 cities, and driven by the ease of comparing products and low prices offered.

Online Furniture market trend



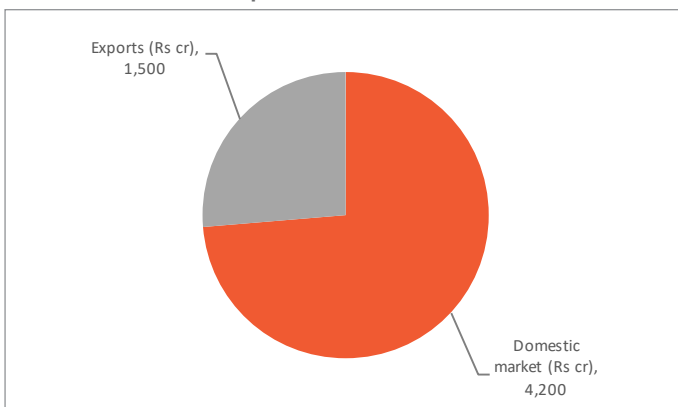
Source: Industry, Sharekhan Research

Indian organised players hold lion’s share in domestic market

The global laminate industry is estimated to be worth \$7.2 billion and is growing at 3-5% per annum. On a regional basis, the US leads the market with a share of 20%. With rising population and improving standards of living, there has been an increase in the demand for modern housing, particularly in emerging nations, which has helped the market grow.

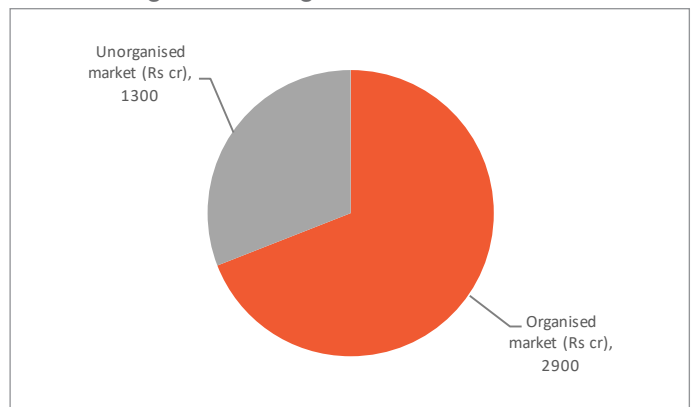
The Indian laminate industry is pegged at Rs. 5,700 crore out of which the domestic market’s share is ~74% while the exports share is 26%. In the domestic laminates industry estimated at Rs. 4,200 crore, the organised market has a lion’s share of ~69% while the share of the unorganised segment is at 31%.

Laminate Domestic/Exports mix



Source: Industry, Sharekhan Research

Laminate Organised/un-organised mix



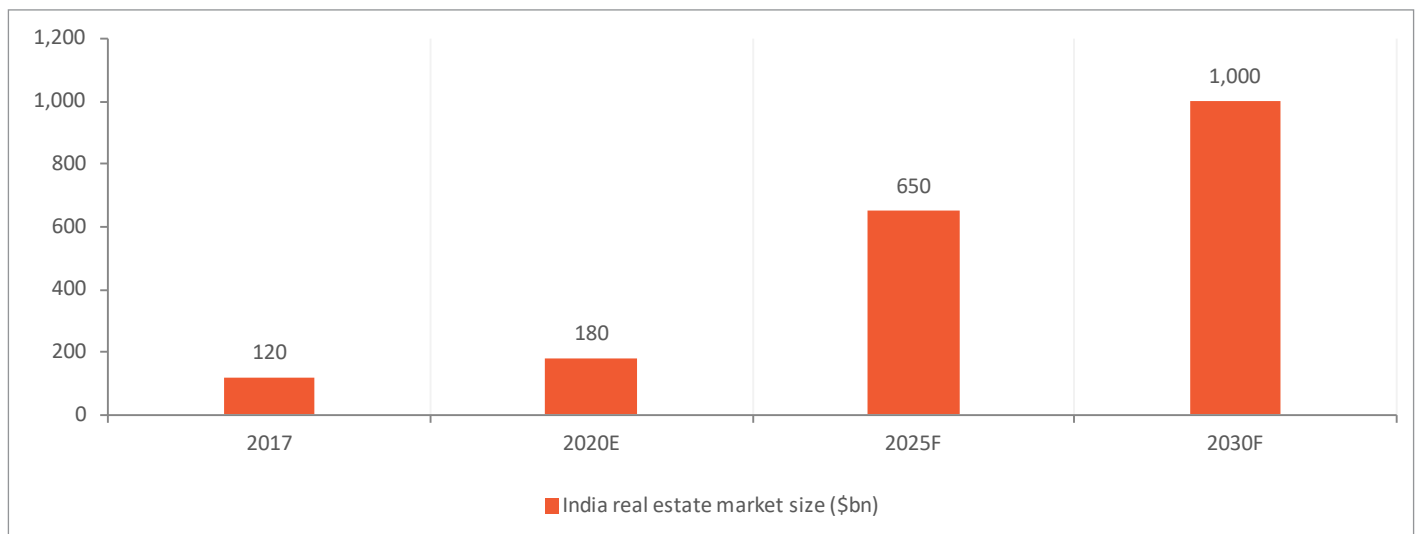
Source: Industry, Sharekhan Research

Key growth drivers for Indian laminates sector

Strong pick-up in real estate sector

India's real estate sector is expected to reach a size of \$ 1 trillion by 2030, up from \$120 billion in 2017. It is estimated to grow at a CAGR of 19.5% during 2017-2028. According to a survey by KPMG in association with the Naredco and APREA, the sector is estimated to grow to \$650 billion by 2025 and surpass \$850 billion by 2028 to touch \$1 trillion by 2030. This growth is driven by emerging asset classes such as affordable housing and co-working spaces. A number of growth promoting regulatory developments and initiatives announced over the last two years, are paving the way for strong sector growth in the future.

Real estate market size trend



Source: Industry, Sharekhan Research

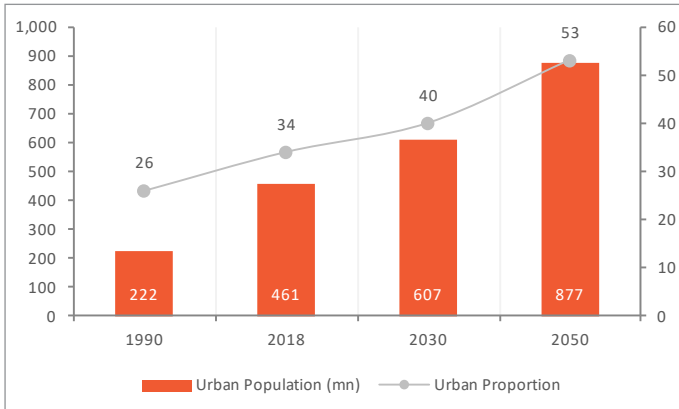
The rise of 'Work-from-Home' trend

The Indian Work From Home (WFH) furniture market is projected to grow from an estimated USD 2.22 billion in FY2020-21 to \$3.49 billion by FY2025-26. Growth will be majorly driven by rising number of companies providing an option of doing WFH to employees and a growing number of IT companies adopting cloud-based solutions. Moreover, consumer preference for premium quality products, increasing urban population, growing internet connectivity and rising disposable incomes are also positively influencing the market. Changing lifestyle of consumers, especially due to COVID-19 lockdown, are some other major drivers of WFH furniture market in India. In many cases, companies are utilising their capital expenditure to set up comfortable offices with ergonomic curated products for their employees at their homes either through rentals or purchase. This resulted in a huge surge in demand for office furniture at homes

Rising urban population and per capita income

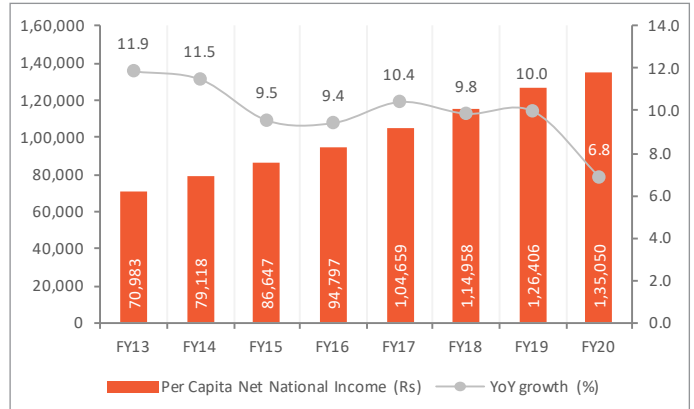
India's urban population is expected to rise from 416 million in 2018 to 877 million in 2030 with a share of urban proportion rising from 34% of total population to 40% over the same period. The rapid urbanization is expected to create an additional demand for 25 million affordable housing units. Further, India's nominal per capita net national income has recorded a 9.6% CAGR over FY2013-FY2020.

Urban Population trend



Source: Industry, Sharekhan Research

Per capita income trend

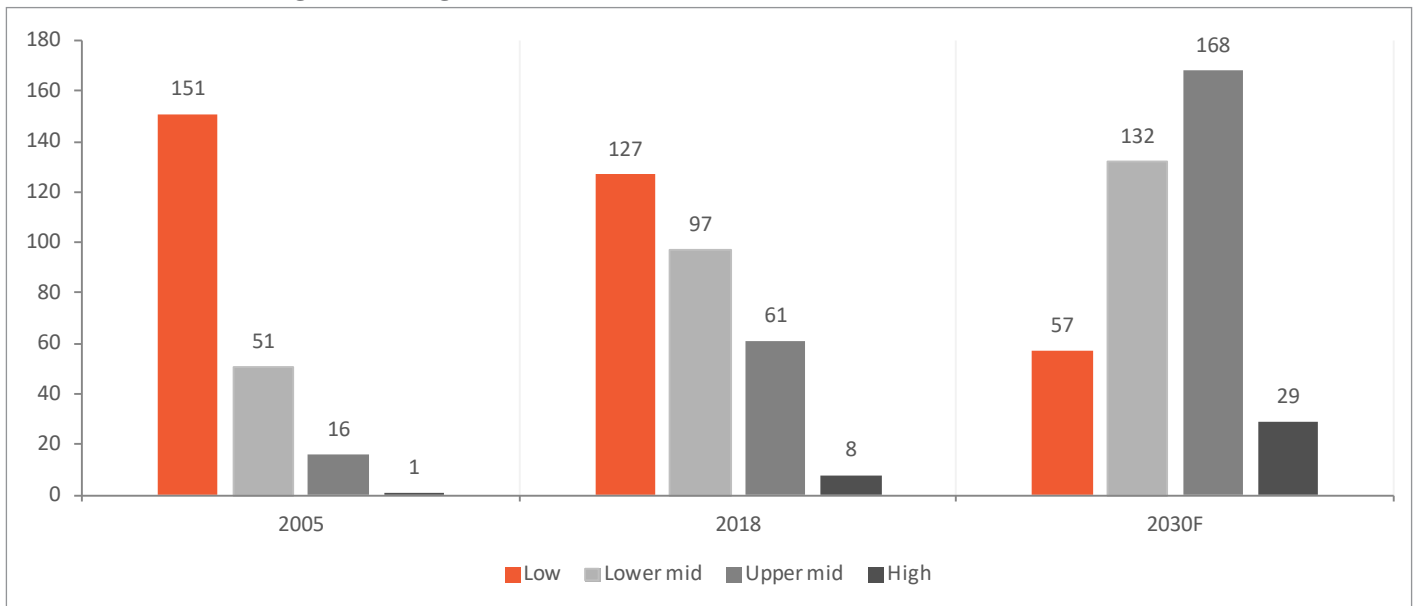


Source: Industry, Sharekhan Research

Burgeoning middle-class to drive consumption

By 2030, India will add about 140 million middle-income and 21 million high-income households, overall nearly doubling the total share of these segments to 51%.

Rise in middle-income & high income segment



Source: Industry, Sharekhan Research

Changing consumer preferences

As mentioned above, the COVID-19 pandemic and the lockdown have changed customer preferences largely as comfort and functionality have become as significant as design and aesthetics. With the need to spend extended hours at home, sharing space with family members while working from home/ studying from home, and spending leisure time together, furniture set-up for homes has changed. Manufacturers and retailers will see a continuation of this trend well into the coming year, and there will be a rise in demand for multi-functional, comfortable, and aesthetic furniture for homes. Additionally, with increasing awareness about sustainability and recycling, consumers are making more informed choices, picking engineered wooden furniture/ refurbished furniture over plastic furniture.

Policy Support for Manufacturing

As India aims to become a global manufacturing hub, there has been a major policy push, with initiatives such as 'Make In India' and 'Vocal for Local', etc, that would drive manufacturing activity, including that of furniture. Through Make in India, the government aims to increase the manufacturing sector's share in GDP to 25% by 2025. Additionally, in August 2019, the government permitted 100% FDI in contract manufacturing through the automatic route, further encouraging the sector's growth.

Budget 2021 – Boost to affordable Housing sector

Giving another push to the 'Housing for All' goal, the Union Budget 2021 has yet again has announced incentives for affordable housing, giving a boost to the sector and homebuyers as well. Finance Minister Nirmala Sitharaman proposed to extend the Rs 1.5 lakh benefit on interest paid on affordable housing loans by one year to March 31, 2022. Also, to keep up the supply of affordable houses, the Budget has proposed that affordable housing projects can avail a tax holiday for one more year till March 31, 2022. The FM also allowed tax exemption for notified affordable rental housing projects.

Rental Furniture Demand

With changing consumer trends about design and functionality, another major trend that is driving growth is rental furniture. With the increased financial uncertainty and economic slowdown, several millennial consumers, who are either living alone or sharing space with friends, are opting to rent functional and smart furniture via online portals, instead of investing in a lifetime purchase of furniture. Apart from being cost-effective and convenient, the rental furniture portals also offer flexibility and access to varied designs, on one platform, catering to the changing tastes and needs of the millennials.

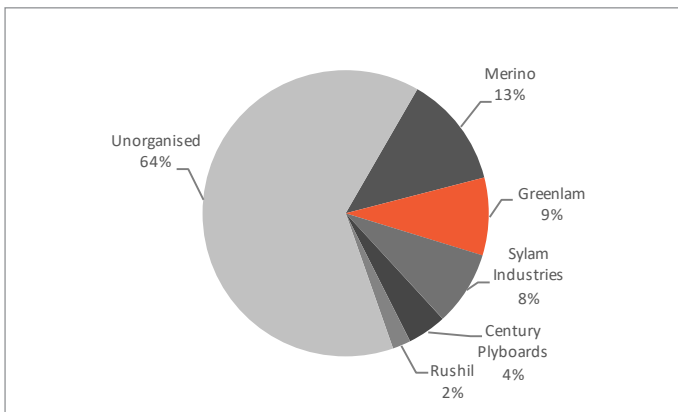
Why we like GRLM – Leadership positioning with ample growth opportunities

GRLM has a dominant position in India’s laminate industry with strong product portfolio and deeper penetration reach. The company has strong domestic structural growth levers with opportunities to increase market share. Rising exports provide icing on the cake.

Strong positioning

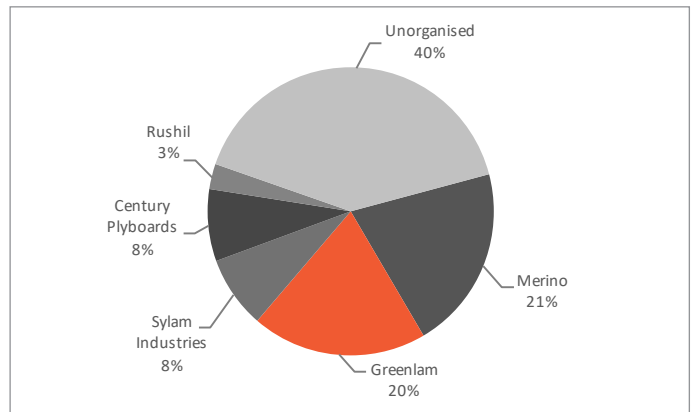
The Indian laminate industry like the global one is concentrated in nature with top organised players dominating the market. Despite ~150-160 players operating in the industry, the top six players control ~60% of overall market share in value terms with Greenlam and Merino being the undisputed leaders (with ~40% of the industry share). In capacity terms Greenlam and Merino together account for ~21% industry share with the unorganised market’s share pegged at ~64%.

Laminate capacity share



Source: Industry, Sharekhan Research

Laminate value share

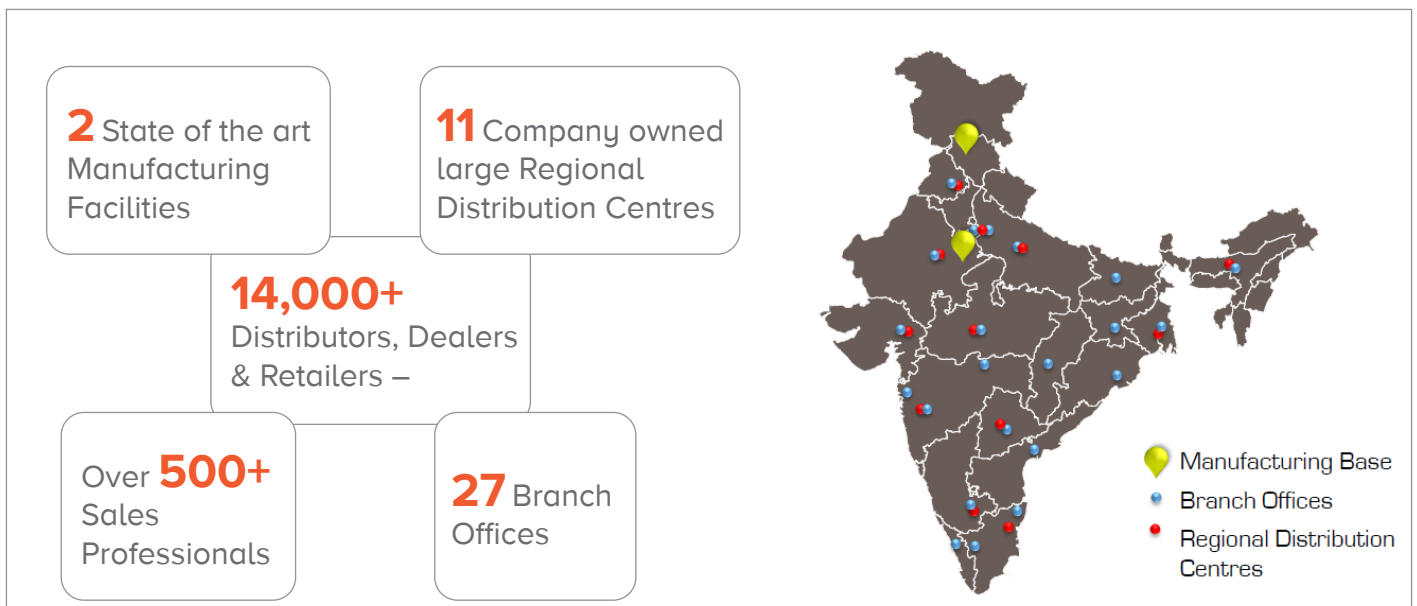


Source: Industry, Sharekhan Research

Strong product portfolio and distribution network












Greenlam has a strong distribution network which gives it an edge from completion and help its targeted growth plans. The company has over ~140,000 channel partners including distributors, dealers and distributors offering vast portfolio of more than 10,000 SKUs. Further, the shift from unorganised to organised players having strong balance sheet and supply remains eminent with recent market share gains seen across businesses bodes well for Greenlam.

Domestic Reach



Source: Company, Sharekhan Research

Product Portfolio

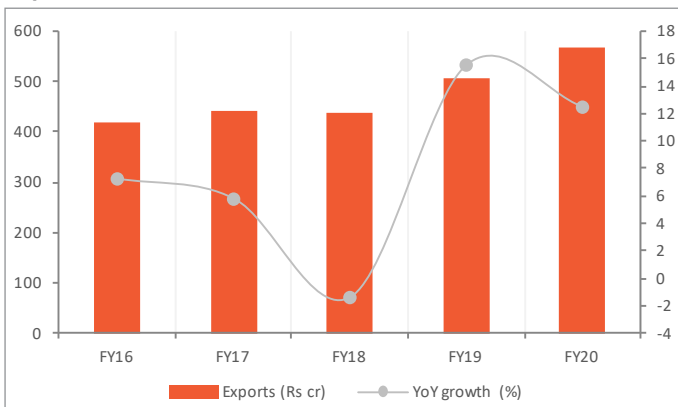
Decorative Laminate & Allied Products			Veneer & Allied Products		
Laminates Commodity to Premium products  	Compact Panels Standard Compact Panels Lab Guardian Restroom & Locker Solutions Clads – Façade Panels Stratus Kitchen Solutions    	MFC Melamine Faced Chip Board  	Decorative Veneer Natural Veneer Teak Veneer Engineered Veneer 	Mikasa Floor Engineered Wood Floor & matching accessories 	Mikasa Door Engineered Wood Door and Doorsets (Door + Frames) 

Source: Company, Sharekhan Research

Export provides ample opportunities for growth

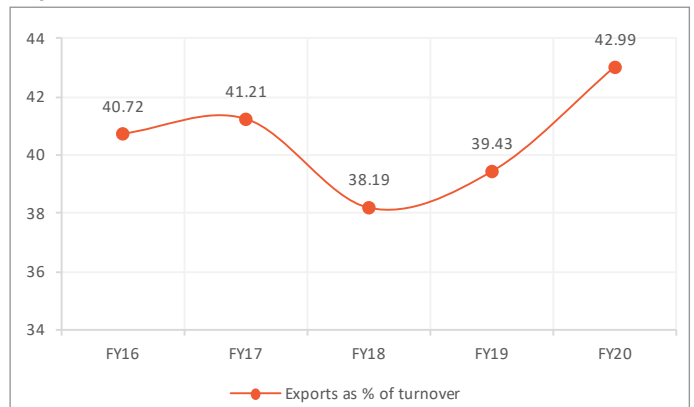
Greenlam has increased penetration of decorative laminates into export geographies through competitive price points, better quality standards and a wide range of design and sizes. Consequently, the company’s reach has grown from ~60 countries in FY11 to more than ~100 countries in FY20. Its export revenues has clocked a 7.9% CAGR over FY16-FY20 with export revenues growing at 15.5% and 12.4% y-o-y during FY2019 and FY2020. The export revenue share in total turnover increased from 38% in FY2018 to FY2020. To strengthen its presence and service and the demand of central European region more effectively, Greenlam acquired Swiss-based distribution and marketing company- Decolan SA in 2019. Further, during Q3FY2021, it has set up wholly owned subsidiaries in Russia and Poland which is expected to help it in further strengthening its market position in Russia and Poland. Overall, the company targets to gain market share overseas from respective regional players.

Export revenue trend



Source: Company, Sharekhan Research

Export share in total revenues trend



Source: Company, Sharekhan Research

Greenlam South to spearhead growth in next decade

Greenlam, through its wholly owned subsidiary Greenlam South would be setting up a manufacturing facility at Nellore, AP with initial proposed capacity of 1.5 million laminates sheets. Investment to be incurred would hover around RS 175 crore including land cost for 65 acres at Rs. 50 crore, while the plant is expected to be commissioned by FY2022-23. Peak revenue potential of initial capacity of 1.5 million sheets would be Rs ~ 300 crore (1.7x asset turnover). However, the company would be having enough land to consistently add incremental press lines in futures as demand increases, while the potential asset turnover on those incremental investments would be immense. Accordingly, we believe GSL would drive the company's growth over the next decade.

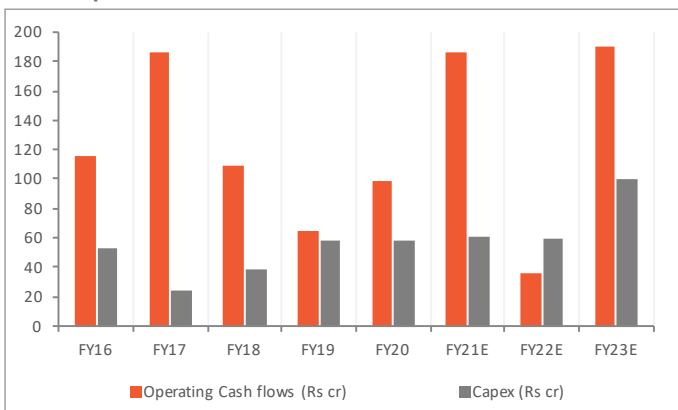
Decorative veneer & allied business to reach normalcy by Q4FY21

The decorative veneer market was valued at Rs. 2,000 crore with organised players accounting for nearly 60% share. Greenlam is India's largest decorative veneer manufacturer with an installed capacity of 4.20 million square metres per annum. The veneer segment is largely driven by demand from the residential, high-networth individual (HNI) and hospitality segments. The company has strong reach through its dedicated relationship managers interacting with key architects and designers. The company has the ability to launch 15-20 new products each quarter and going ahead the Company expects to leverage its pricing power while introducing value-added products with further penetration. Management estimates normalcy in the decorative and allied business by Q4FY21 given the m-o-m improvement in the segment. Further, it envisages new businesses-- doors and flooring--to become profitable by FY22. While the decorative business has been relatively more impacted due to its discretionary nature, flooring and doors businesses entail strong import replacement opportunity. Further, Greenlam is seeing stronger demand at the retail level compared to projects.

Improving balance sheet strength

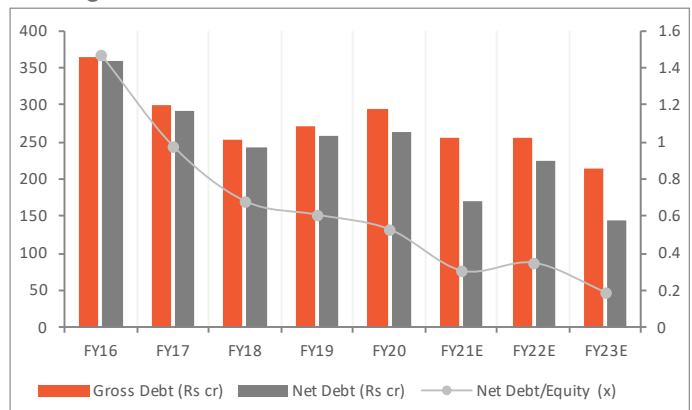
GRLM has consistently generated strong operating cash flows during FY2016-FY2020 despite incurring capital expenditure. It generated on an average Rs. 115 crore per annum operating cash flows and incurred on an average Rs. 47 crore capital expenditure during FY2016-FY2020. Further, the company has continuously de-leveraging its balance sheet bring down its gross debt by Rs. 109 crore over FY2016 to Q3FY2021. The company's net debt/equity reduced from 1.5x in FY2016 to 0.3x in Q3FY2021. We expect GRLM to generate over Rs. 400 crore operating cash flows during FY2021-FY2023 and net debt/equity to further reduce to 0.2x in FY2023 despite its ongoing capital expenditure plan.

OCF/Capex trend



Source: Company, Sharekhan Research

Leverage trend

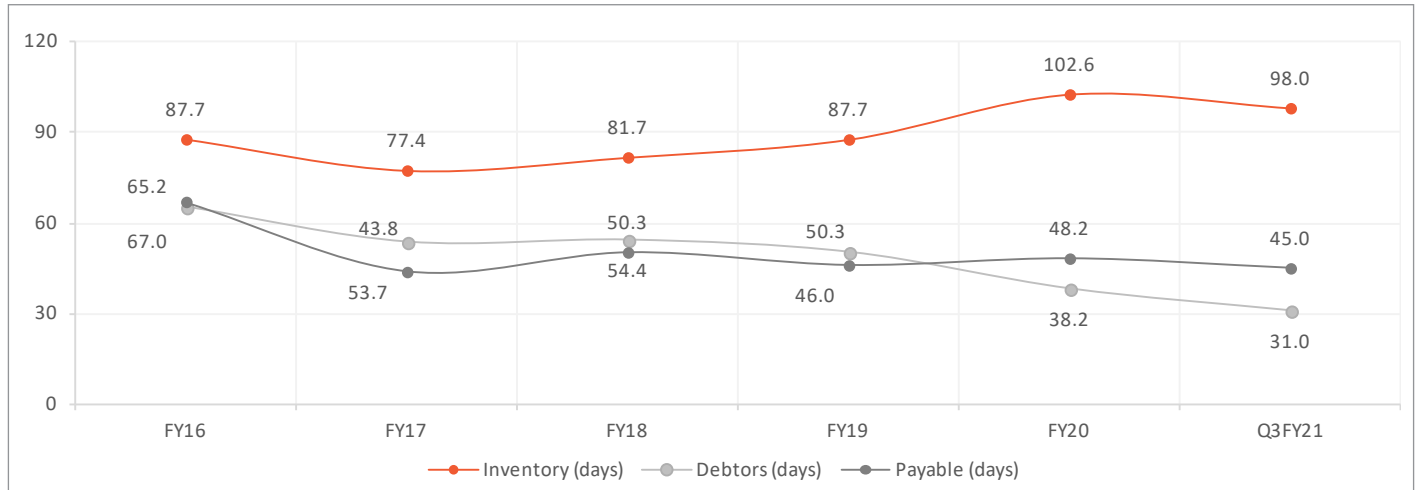


Source: Company, Sharekhan Research

Tight working capital management

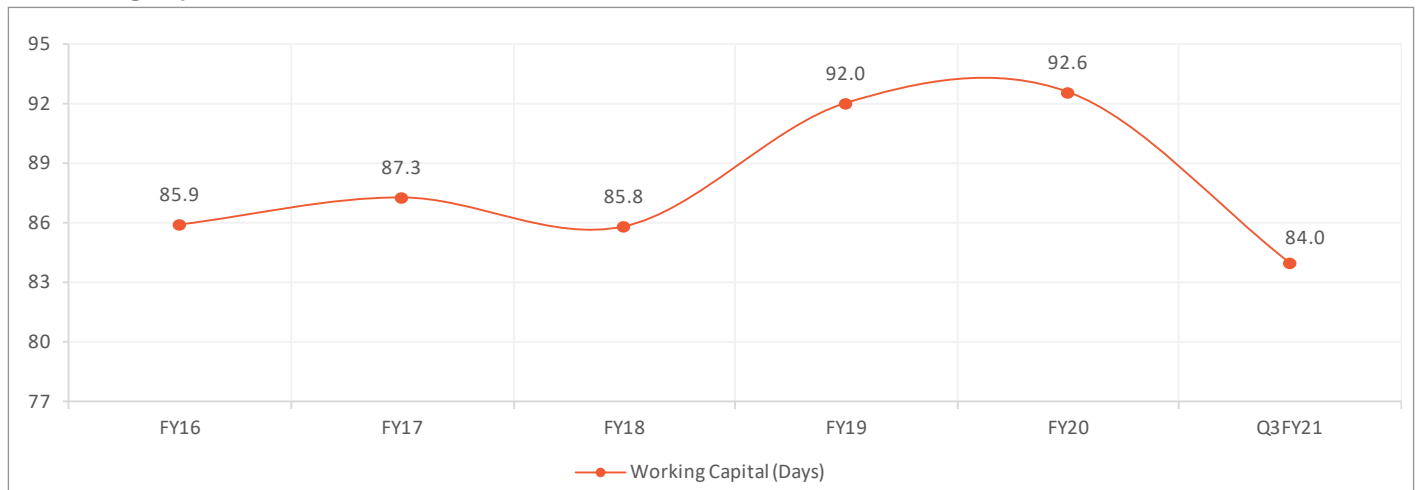
GRLM has consistently focused on maintaining tight working capital management. The working capital requirement in laminate sector remains high with unorganized players having more than 120 days of new working capital days. While GRLM has maintained net working capital days in the range of 86 to 93 days. The company further reduced its net working capital days to 84 days as on Q3FY2021 from the peak of 93 days in FY2020. We expect GRLM to continue to maintain tight working capital management going ahead.

Inventory/Debtors/Payables trend



Source: Company, Sharekhan Research

Net Working Capital trend



Source: Company, Sharekhan Research

Healthy Q3FY2021 Results

GRLM reported 15.7% q-o-q rise (down 6.5% y-o-y) in consolidated revenues for Q3FY2021 to Rs. 335 crore. The company saw a y-o-y rise in volumes in its core laminate business in Q3 post witnessing declining growth in prior three trailing quarters. Laminate volumes were up 10.5% y-o-y while laminate revenues remained almost flat (-0.5% y-o-y) at Rs. 296 crore. A strong uptick in economic activity led to a growth in laminates. International revenues of laminates were 103% and domestic revenues 96% of the same quarter pre-COVID levels. Veneer & allied segments revenues declined by 23% y-o-y led by 22% y-o-y dip in volumes. Demand in veneer & allied segments is around 65% of the same quarter pre-COVID-19 levels. The segment is on an improving trajectory and is expected to be on track from Q4FY2021 onwards. Overall, the company witnessed strong traction in its core laminates business while the veneer and allied business is on improving trajectory. The company reported strong performance on OPM front with OPM for Q3FY2021 expanding by 204 bps y-o-y (up 332bps q-o-q) to 17.3%. OPM was led by sharp expansion in gross margins, which were up 184 bps y-o-y (up 315bps q-o-q). The management expects 17-18% OPM to sustain going forward. Hence, operating profit for Q3FY2021 rose 6% y-o-y to Rs. 58 crore. Further, higher other income and lower interest expense led to PBT growth of 14% y-o-y (up 78.5% q-o-q) to Rs. 42 crore. A higher effective tax rate (23.7% vs 20.8% in Q3FY2020) led to 10% y-o-y (up 72% q-o-q) rise in consolidated net profit at Rs. 32 crore.

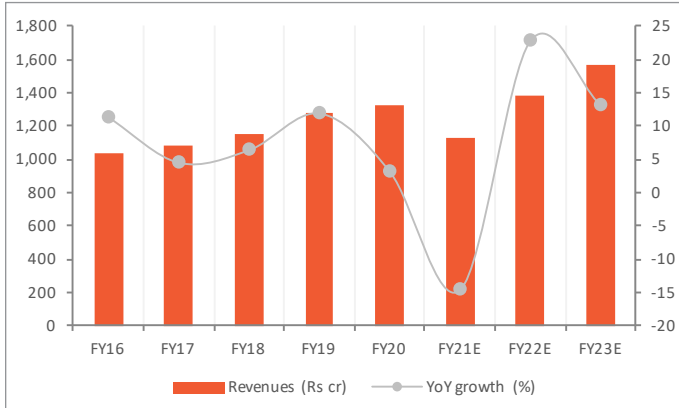
Results (Consolidated)

Particulars	Rs cr				
	Q3FY2021	Q3FY2020	y-o-y%	Q2FY2021	q-o-q%
Net sales	334.6	358.0	-6.5%	289.3	15.7%
other income	1.9	1.1	75.1%	1.6	13.9%
Total income	336.5	359.1	-6.3%	290.9	15.6%
Total expenses	276.7	303.4	-8.8%	248.8	11.2%
Operating profit	57.9	54.6	6.0%	40.5	43.1%
Depreciation	14.0	13.6	2.9%	14.1	-0.5%
Interest	3.9	5.4	-27.4%	4.6	-14.8%
Exceptional items	0.0	0.0		0.0	
Profit Before Tax	41.9	36.7	14.0%	23.5	78.5%
Taxes	9.9	7.7	29.5%	4.9	101.7%
Minority Interest	0.0	0.0		0.0	
PAT	32.0	29.1	9.9%	18.5	72.4%
Adjusted PAT	32.0	29.1	9.9%	18.5	72.4%
EPS	13.2	12.0	9.9%	7.7	72.4%
OPM (%)	17.3%	15.3%	204 bps	14.0%	332 bps
NPM (%)	9.5%	8.1%	143 bps	6.4%	314 bps
Tax rate (%)	23.7%	20.8%	283 bps	20.9%	273 bps

Source: Company; Sharekhan Research

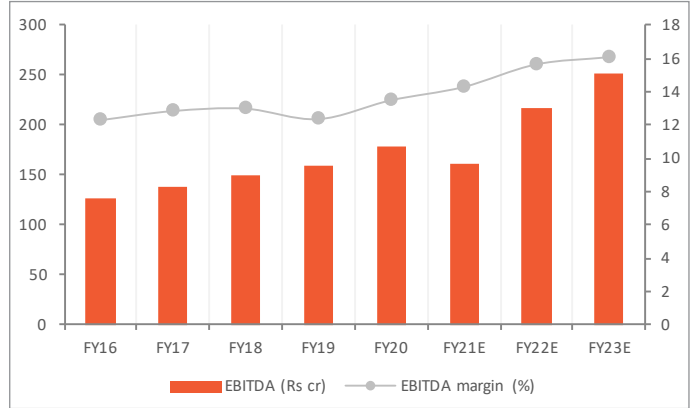
Financials in charts

Revenue trend



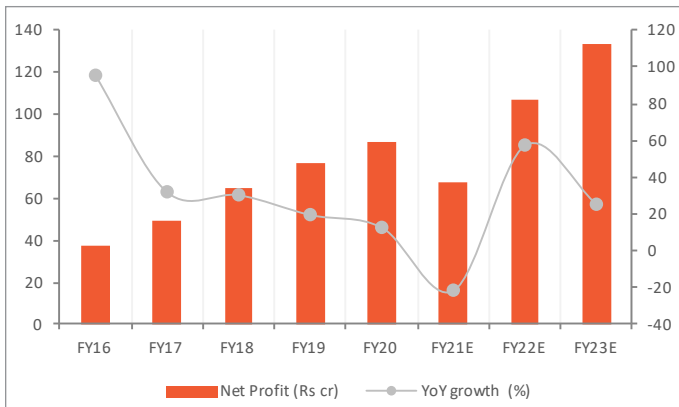
Source: Company, Sharekhan Research

EBITDA trend



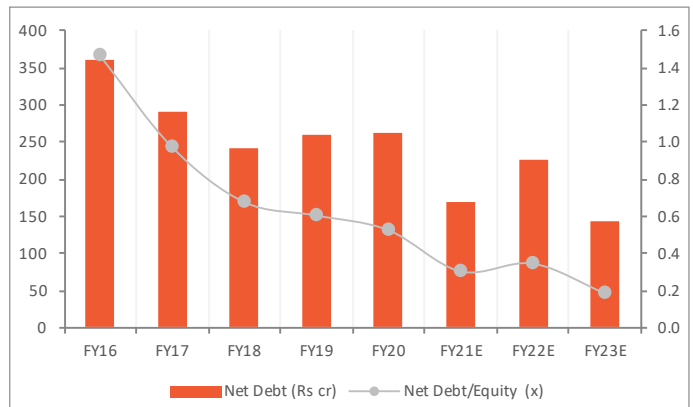
Source: Company, Sharekhan Research

Net Profit trend



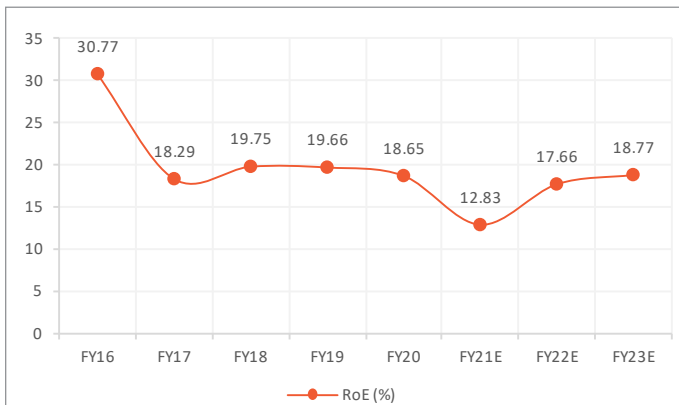
Source: Company, Sharekhan Research

Net Debt trend



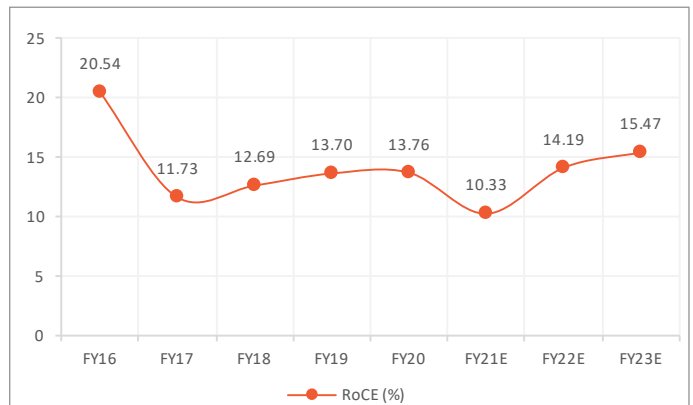
Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

Outlook and Valuation

GRLM's valuation at 15.3x P/E on FY2023E earnings does not capture the strong growth visibility of the company. Its revenues/operating profit/net profit are expected to grow at 17.8%/25.0%/40.1% over FY2021-FY2023E backed by multiple growth levers.

■ Sector View – Expect faster recovery in operations

The building materials industry was severely affected by COVID-19 led lockdown during Q1FY2021, which had affected its peak sales period of the year. Additionally, its high fixed cost structure had affected OPM, dragging down its net earnings. However, from June, the sector has been one of the fastest in recovery with easing of the lockdown domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilisation levels. Most players have begun to see demand and revenue run-rate reaching 80%-90% compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

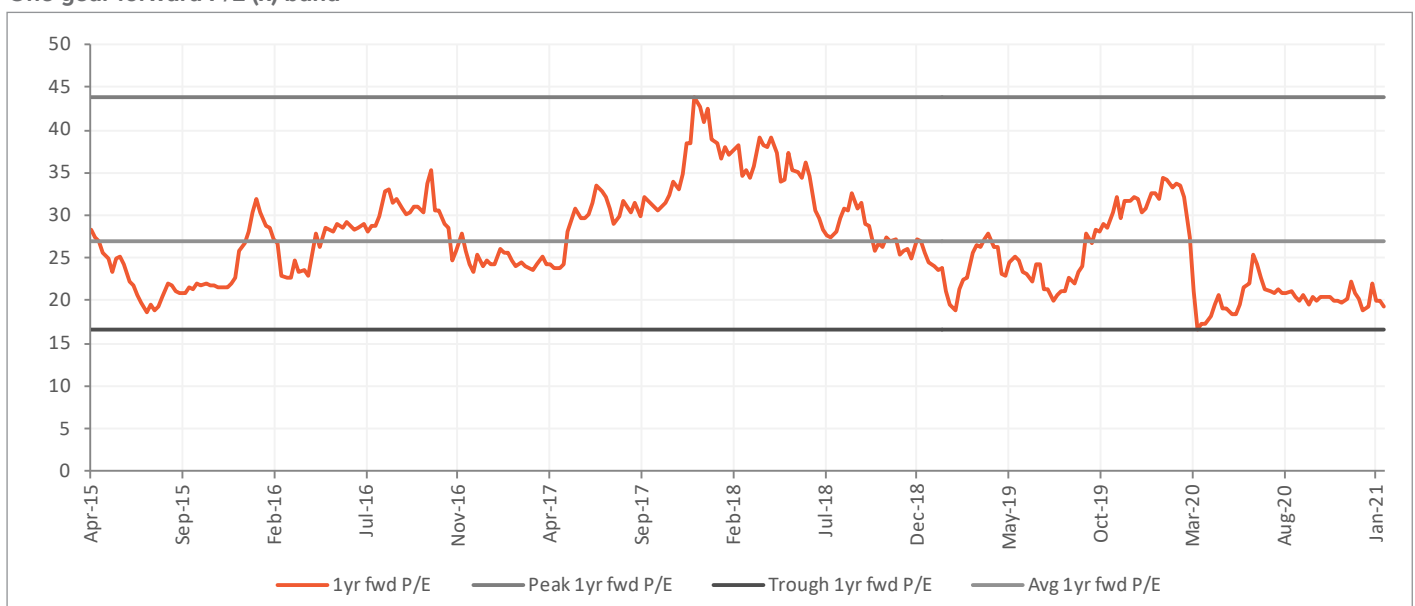
■ Company Outlook – Multiple growth levers for sustainable growth

GRLM is a joint leader in Rs. 5,700 crore laminate industry with a market share of ~20%. GRLM is expected to ride on strong growth being envisaged for the wooden furniture industry, which is expected to grow at 12% CAGR over 2020-23. Key growth drivers are rising incomes, urbanisation, real estate development, Housing for All, etc. Further, we expect GRLM to grow at a faster pace benefiting from market share gains from the unorganised sector leveraging its strong distribution network. The government's focus on making India an export hub provides strong export growth opportunities for Greenlam. GRLM through its subsidiary, Greenlam South (GSL) is undertaking 1.5 million sheet brownfield capacity expansion in Andhra Pradesh at a capex of Rs. 175 crore, which is expected to commission during FY2023. The said expansion would provide company the next leg of growth going forward.

■ Valuation – Initiate with Buy assigning a price target of Rs. 1,100

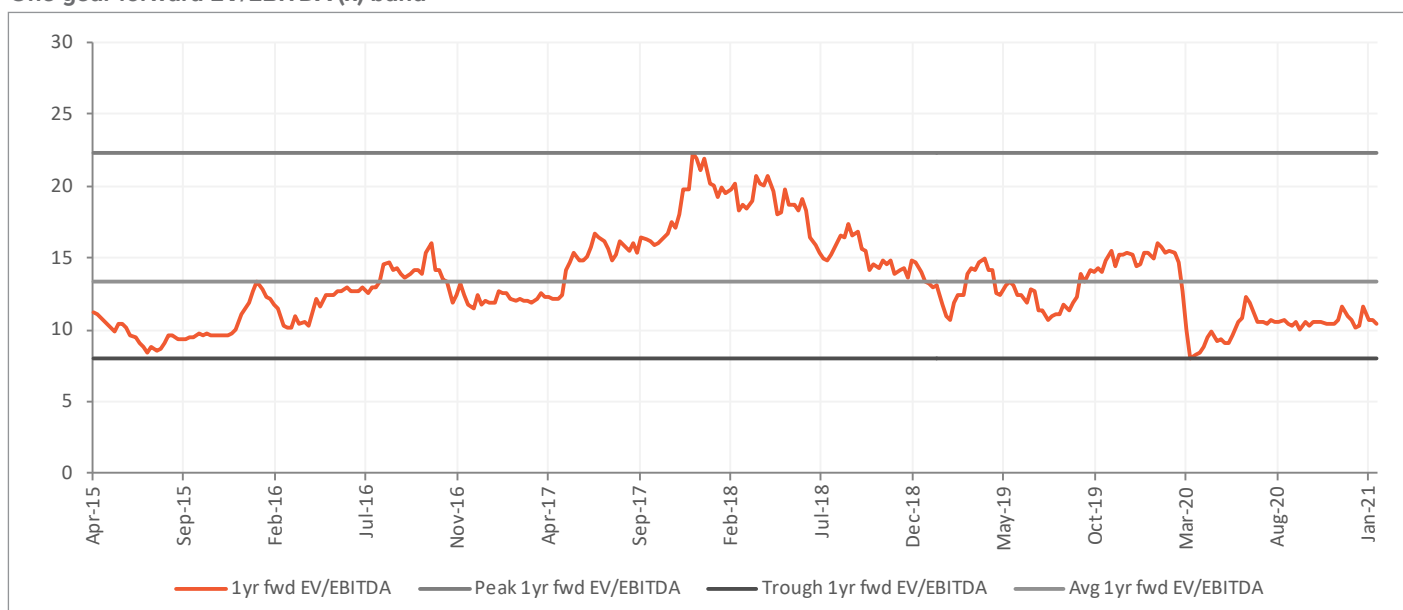
Greenlam, with its dominant industry position, strong domestic growth outlook and rising export opportunities is slated to see revenues/EBITDA/net profit clock a CAGR of 17.8%/25.0%/40.1% over FY2021E-FY2023E. Further, its ongoing capacity expansion plan would provide the next leg of growth. Strong operating cash flow generation (Rs. 350 crores+ over FY2021E-FY2023E) would help de-leverage the balance sheet (net debt/equity is to reduce from 0.5x in FY2020 to 0.2x in FY2023) while RoCE to improve (from 10.3% in FY2020 to 15.5% in FY2023). The company is currently valued at a P/E of 19.1x/15.3x its FY2022E/FY2023E earnings, which we believe is attractive considering 40% net earnings CAGR over FY2021E-FY2023E. Hence, we initiate coverage on the stock with a price target of Rs. 1100 (valued at 20x FY2023E earnings).

One-year forward P/E (x) band



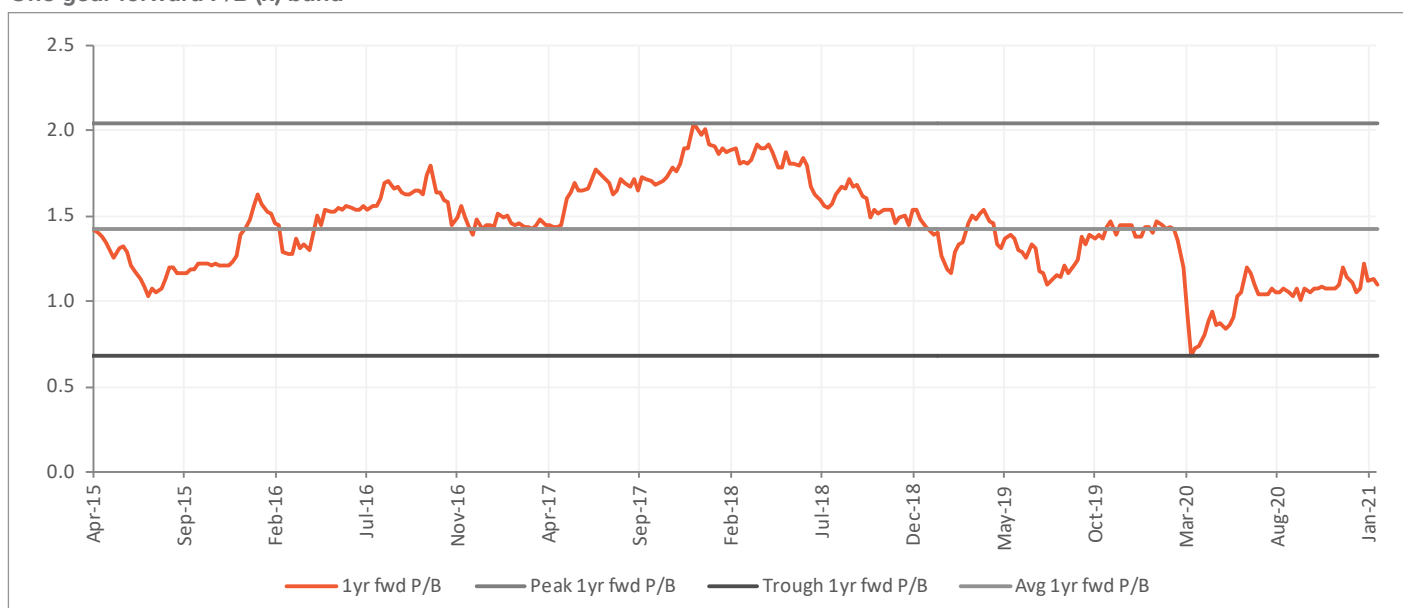
Source: Sharekhan Research

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

One-year forward P/B (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Greenlam Industries	19.1	15.3	10.6	9.1	3.1	2.6	17.7	18.8
Greenpanel Industries*	20.2	14.3	10.0	8.1	2.8	2.4	14.7	17.6
Greenply Industries*	16.0	13.2	10.0	8.8	3.0	2.5	19.7	20.2
Century Plyboards	29.4	23.3	18.1	14.5	4.3	3.7	13.7	15.5

Source: Sharekhan Research

* Bloomberg estimates

Financials

Statement of Profit and Loss

Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	1280.7	1320.6	1127.8	1384.9	1566.2
<i>Growth (%)</i>	11.9	3.1	-14.6	22.8	13.1
Total Expenditure	1122.2	1142.3	966.7	1168.4	1314.6
Cost of Revenues	687.8	670.4	552.6	685.5	775.3
Employee	192.5	222	199.8	219.7	241.7
Other Expenditure	241.9	250	214.3	263.1	297.6
Operating profit	158.5	178.2	161.1	216.5	251.6
<i>Growth (%)</i>	6.5	12.4	-9.6	34.4	16.2
Operating profit Margin %	12.4	13.5	14.3	15.6	16.1
Depreciation	36.8	52.5	56	60	64
EBIT	121.7	125.7	105.1	156.5	187.6
EBIT margin (%)	9.5	9.5	9.3	11.3	12
Other Income	1.5	4.4	6.2	6.8	8.2
Interest Expenses	17	21.8	20.3	20.3	17.1
E/O item	0	0	0	0	0
PBT	106.2	108.3	91	143	178.7
Tax	29.1	21.7	23.2	36.4	45.5
Effective Tax rate (%)	27.4	20	25.5	25.5	25.5
Net profit before MI	77.1	86.7	67.8	106.6	133.2
<i>Growth (%)</i>	19.3	12.4	-21.7	57.1	25
Minority Interest	0	0	0	0	0
Adjusted Net profit	77.1	86.7	67.8	106.6	133.2
E/O item	0	0	0	0	0
Reported net profit	77.1	86.7	67.8	106.6	133.2
<i>Growth (%)</i>	19.3	12.4	-21.7	57.1	25
EPS	31.9	35.9	28.1	44.2	55.2
<i>Growth (%)</i>	19.3	12.5	-21.8	57.1	25

Source: Company; Sharekhan estimates

Financials

Balance Sheet						Rs cr
Particulars	FY19	FY20	FY21E	FY22E	FY23E	
Equity share capital	12.1	12.1	12.1	12.1	12.1	12.1
Reserves & surplus	416.3	488.6	544.8	638.3	756.9	756.9
Net worth	428.4	500.7	556.9	650.3	769	769
Minority Interests	0.1	0.1	0.1	0.1	0.1	0.1
Total Loan funds	269.7	294.2	254.2	254.2	214.2	214.2
Net deferred taxes	20.1	14.1	14.1	14.1	14.1	14.1
Total Liabilities	718.3	809.1	825.3	918.8	997.4	997.4
Net Block	330.3	428.7	412.4	400.1	413	413
CWIP	21.7	16.7	37	47	47	47
Investment	0	0	0	0	0	0
Current Asset	575.3	658.3	630.8	741.4	796.5	796.5
Inventories	307.5	371	309	379.4	429.1	429.1
Sundry Debtors	176.6	138.4	108.8	194.7	148.5	148.5
Cash & Bank balance	10.6	30.7	84.8	29	70.7	70.7
Loans & Advances	32.5	13.6	23.6	33.6	43.6	43.6
Other current assets	48	104.6	104.6	104.6	104.6	104.6
Current liabilities & pro.	209.1	294.7	254.9	269.8	259.1	259.1
Current liabilities	190.8	271.5	231.7	246.6	236	236
Provisions	18.3	23.1	23.1	23.1	23.1	23.1
Net current asset	366.2	363.6	375.9	471.6	537.4	537.4
Total Assets	718.3	809.1	825.3	918.8	997.4	997.4

Source: Company; Sharekhan estimates

Cash Flow Statement						Rs cr
Particulars	FY19	FY20	FY21E	FY22E	FY23E	
Cash flow from operating activities	64.1	98.1	186.0	35.5	190.2	190.2
Cash flow from investing activities	-57.1	-55.9	-59.5	-50.6	-72.7	-72.7
Cash flow from financing activities	-6.8	-22.1	-72.0	-33.4	-71.7	-71.7
Net change in cash and cash equivalents	0.2	20.1	54.5	-48.6	45.9	45.9
Opening Cash balance	10.4	10.6	30.7	85.3	36.7	36.7
Closing Cash balance	10.6	30.7	85.3	36.7	82.6	82.6
Free Cash Flows (FCFF)	-0.8	36.3	115.9	-34.8	79.8	79.8
Free Cash Flows to Equity (FCFE)	-62.9	-24.9	50.4	-100.0	-24.6	-24.6

Source: Company; Sharekhan estimates

Financials

Key Ratios

Particulars	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Margins (%)					
GPM	46.3	49.2	51.0	50.5	50.5
OPM	12.4	13.5	14.3	15.6	16.1
NPM	6.0	6.6	6.0	7.7	8.5
Tax rate	27.4	20.0	25.5	25.5	25.5
As a percentage of revenue (%)					
Cost of Revenues	53.7	50.8	49.0	49.5	49.5
Employee Cost	15.0	16.8	17.7	15.9	15.4
Other Expenses	18.9	18.9	19.0	19.0	19.0
Financial ratios					
Debt / Equity (x)	0.6	0.6	0.5	0.4	0.3
Inventory (days)	88	103	100	100	100
Debtors (days)	50	38	40	40	40
Payable (days)	46	48	45	45	45
Working Capital (Days)	92	93	95	95	95
Adjusted EPS (Rs.)	31.9	35.9	28.1	44.2	55.2
Cash EPS (Rs.)	47.2	57.7	51.3	69.0	81.7
Dividend Per Share (Rs.)	3.0	4.0	4.0	4.5	5.0
Dividend Payout Ratio (%)	11.3	11.2	17.2	12.3	10.9
Book Value Per Share (Rs.)	182.5	212.6	235.7	274.4	323.6
RoNW (%)	19.7	18.7	12.8	17.7	18.8
RoCE (%)	13.7	13.8	10.3	14.2	15.5
Valuation ratios					
CMP (Rs.)	841.75	841.75	841.75	841.75	841.75
P/E (x)	26.4	23.4	30.0	19.1	15.3
Mcap (Rs. crore)	10158.4	10158.4	10158.4	10158.4	10158.4
Market cap / Sales (x)	7.9	7.7	9.0	7.3	6.5
Enterprise Value (Rs. crore)	10417.5	10421.8	10327.3	10375.9	10290.0
EV / Sales (x)	8.1	7.9	9.2	7.5	6.6
EV / EBIDTA (x)	14.5	12.9	14.2	10.6	9.1
Price / Book value (BV)	4.6	4.0	3.6	3.1	2.6
Dividend yield (%)	0.4	0.5	0.5	0.5	0.6
Growth ratios (%)					
Revenue	11.9	3.1	-14.6	22.8	13.1
Operating profit	6.5	12.4	-9.6	34.4	16.2
Profit before tax	10.1	2.0	-16.0	57.1	25.0
Adjusted PAT	19.3	12.4	-21.7	57.1	25.0
EPS	19.3	12.5	-21.8	57.1	25.0

Source: Company; Sharekhan estimates

About company

Greenlam is among the world's top 3, Asia's largest and India's No. 1 surfacing solutions brand. With its presence in over 100 countries, Greenlam has team of over 14,000 distributors and dealers along with more than 4500 employees. It offers end to end surfacing solutions spread across laminates, compacts, veneers, engineered wooden floors and engineered wooden doors & frames to choose from. With two manufacturing facilities in the country, it is the first choice of Home Owners, Architects and Interior Designers when it comes to transforming living spaces.

Investment theme

GRLM is a joint leader in Rs. 5700 crore laminate industry with a market share of ~20%. GRLM is expected to ride on strong growth being envisaged for the wooden furniture industry which is expected to grow at 12% CAGR over 2020-2023. The key drivers of growth for the industry are rising income, urbanization, real estate development, Housing for All etc. Further, we expect GRLM to grow at a faster pace benefiting with market share gains from un-organised sector leveraging its strong distribution network. The government's focus on making India an export hub provides strong export growth opportunities for Greenlam.

Key Risks

- ◆ Slowdown in macro-economy leading to weak realty market.
- ◆ High concentration in laminate industry.

Additional Data

Key management personnel

Mr. SHIV PRAKASH MITTAL	Chairman
Ashok Kumar Sharma	Chief Financial Officer
Mr. SAURABH MITTAL	Executive Director-CEO-MD
Ms. PARUL MITTAL	Executive Director

Source: Company website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Greenply Leasing & Finance	37.55
2	Mittal Saurabh	13.04
3	HDFC Asset Management Co	9.03
4	Blue Diamond Properties	7.23
5	Dhawan Ashish	5.65
6	DSP Investment Managers	3.05
7	IDFC Mutual Fund	2.49
8	Mittal Shiv Prakash	2.10
9	Mittal Parul	1.98
10	Bhasali Akash	1.69

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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